

Message Text

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C O N F I D E N T I A L ROME 20789

E.O. 11652: GDS
TAGS: ENRG, BBAK, IT
SUBJECT: ESSO ITALIANA CHANGES PRESIDENTS, NOT POLICY

REF: ROME 20598

1. DURING DECEMBER 22 CALL ON CHARGE, ESSO ITALIANA'S IN-
COMING PRESIDENT JUAN ALBERTO YANES DID NOT VOLUNTEER ADDI-
TIONAL BACKGROUND ON THE RESIGNATION OF ALDO SALA, WHO HAS
GUIDED ESSO ITALIANA SINCE 1972. RE POSSIBILITY OF CHANGE
IN POLICY, YANES ACKNOWLEDGED THAT SALA'S DEPARTURE HAD
FUELED SPECULATION THAT ESSO ITALIANA WOULD ABANDON ITALIAN
MARKET AND WENT ON TO REITERATE POLICY LONG ENUNCIATED BY
SALA; THAT IS, THAT ESSO ITALIANA HAD NO RPT NO DESIRE TO
LEAVE ITALIAN MARKET BUT THAT COMPANY'S CONTINUED PRESENCE
DEPENDED UPON GOI ACTION TO CREATE PROPER CONDITIONS. YANES
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CONFIRMED THAT THE COMPANY HAD CONSIDERED VARIOUS OPTIONS,
FROM EXPANDING ITS ITALIAN INVESTMENTS TO PULLING OUT OF THE
MARKET ENTIRELY, AND HAD TAKEN VARIOUS DEFENSIVE MOVES (RE-
DUCING LEGAL LIABILITY OF THE PARENT COMPANY, TRIMMING PER-
SONNEL, ETC.). HOWEVER, YANES PROFESSED TO SEE GREATER GOI
WILLINGNESS TO RECOGNIZE AND DEAL WITH THE PRICE PROBLEMS

AFFECTING THE PETROLEUM COMPANIES OPERATING IN ITALY.

2. ESSO ITALIAN, ACCORDING TO YANES, WILL FINISH 1976 WITH A 95 BILLION LIRE LOSS, ALTHOUGH ASSETS WILL BE REVALUED AND OTHER BOOKKEEPING CHANGES MADE TO KEEP REPORTED FIGURE CONSIDERABLY LESS. PICTURE FOR 1977 IS BETTER AND YANES EXPECTS TO POST OPERATING SURPLUS AND CONTAIN OVERALL LOSS (CAUSED MOSTLY BY INTEREST PAYMENTS TOTALING SOME 55 BILLION LIRE/YEAR) TO 35-40 BILLION LIRE.

3. EFFECT OF OPEC PRICE DECISION WILL CAUSE CONSIDERABLE CONFUSION, NOT LEAST AMONG GOI OFFICIALS CHARGED WITH DETERMINING PETROLEUM PRODUCT PRICE LEVELS. ESSO ITALIANA HAS INDICATIONS THAT GOI WILL ABSOLVE COMPANIES FROM 7 PERCENT SURCHARGE ON FOREIGN EXCHANGE PURCHASES AND THAT GOI CONSIDERS THIS SUFFICIENT COMPENSATION. IT ISN'T, ACCORDING TO YANES, AND FURTHER ADJUSTMENTS WILL BE NECESSARY IF THE COMPANIES ARE TO AVOID FURTHER LARGE LOSSES. ASSUMING LIRE-DOLLAR EXCHANGE RATE TO AVERAGE 950 TO 1 DURING 1977 (TOUCHING 1,000 TO 1 BY END 1977), YANES STATED THAT ESSO ITALIANA STUDIES INDICATE THAT ITALIAN PETROLEUM PRODUCT PRICES WILL HAVE TO RISE BY ABOUT 22 PERCENT. OVERALL, ESSO ITALIANA ESTIMATES ADDITIONAL ITALIAN OIL BILL AT ABOUT 700 BILLION LIRE.

4. COMMENT: IT SEEMS UNLIKELY THAT SALA'S DEPARTURE WAS COMPLETELY VOLUNTARY; HOWEVER, THE IMPORTANT QUESTION IS WHETHER OR NOT IT SIGNIFIES A CHANGE IN ESSO ITALIANA'S POLICY TOWARDS ITS CONTINUED PRESENCE IN THE ITALIAN MARKET. YANES REAFFIRMED, PUBLICLY (IN AN L'ESPRESSO INTERVIEW REACHING NEWSSTANDS DEC 22) AND TO US, THAT ESSO ITALIANA'S POLICY REMAINS THE SAME.
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THIS MAY BE TRUE, AS FAR AS IT GOES. ESSO HAS CONDITIONED ITS PRESENCE ON GOI ACTION TO CREATE PROPER CONDITIONS FOR THE COMPANY'S OPERATIONS; IT IS NOT BEYOND POSSIBILITY THAT ESSO HAS CHANGED ITS INTERNAL CRITERIA OF WHAT WOULD CONSTITUTE PROPER CONDITIONS AND OF WHAT WOULD BE AN APPROPRIATE TIME-TABLE FOR GOI ACTION. BEAUDRY

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